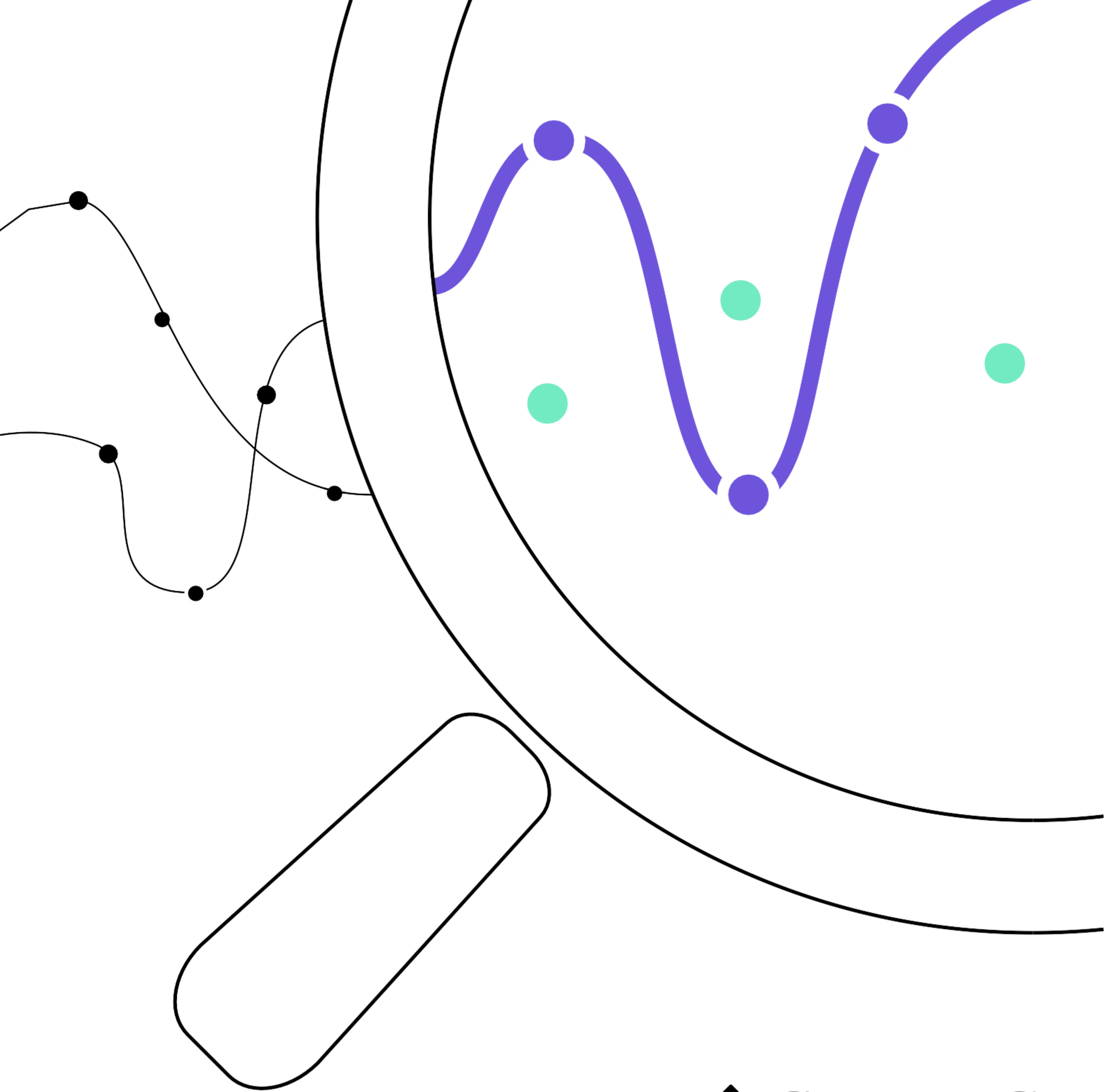
MACRO MONITOR

August 2024

Századvég

Konjunktúrakutató Zrt.



Századvég

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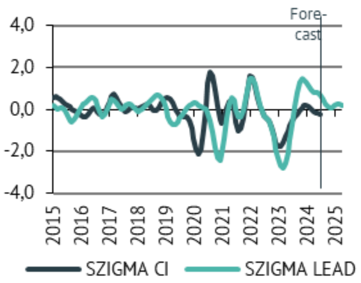
1. Summary

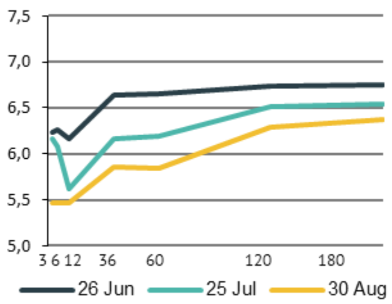
In Q2 2024, Hungarian economic output strengthened by 1.3% year on year and weakened by 0.2% quarter on quarter, according to seasonally adjusted data.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Our forecast (18.06.2024)	2024
Change in the GDP (%)	2.7
Inflation (annual average, %)	4.1

After cutting the base rate the previous month, the Monetary Council of the central bank halted monetary easing at its August meeting. As a result, the base rate (and the policy rate) in Hungary is currently at 6.75%.

In June, retail sales increased by 2.6% year on year on both a raw and calendar-adjusted basis. Within this, compared to the same period of the previous year, sales increased by 3.2% in specialised and non-specialised food shops, 3.6% in non-food retailing and 0.5% in automotive fuel retailing.

Measured up to July 2024, the value of the monthly SZIGMA CI indicator, which provides a snapshot of the current state of the Hungarian economy, was -0.252. This is down from the previous month's index value of -0.115. This means that the Hungarian economy is still growing at a rate below its historical trend rate.

The other indicator, SZIGMA LEAD, a short-term indicator for the future of the Hungarian economy, forecasts above-trend growth by the end of the forecast horizon, but a slight weakening towards the end of the forecast horizon.

In July 2024, consumer prices rose by 4.1% on average year on year.

2. Overview of the economy

2.1 External environment

In August 2024, the Hungarian economy was growing below its historical trend rate.

July 2024 data from Eurostat, the official statistical office of the European Union, show that the annual inflation rate in the euro area was 2.6%, up 0.1 percentage points on the previous month. It is important to note that this rate is still a significant improvement compared to 5.3% a year earlier. For the European Union as a whole, annual inflation was 2.8% in July, up 0.2 percentage points on June and a significant deviation from the previous year's rate of 6.1%.

July's CPI data show a mixed picture across Europe. In Poland, for example, inflation rose from 2.9% in June to 4.0% in July. In contrast, Finland, Latvia and Denmark were among the countries with the lowest annualised CPIs, with July values of 0.5%, 0.8% and 1.0% respectively. Romania reported the highest increase in the harmonised index of consumer prices in the European Union, at 5.8%. Belgium had the second highest inflation rate (5.4%). In the latter two countries, inflation has been consistently high since February 2024. Hungary's consumer price index was 4.1%, the third highest among the countries.

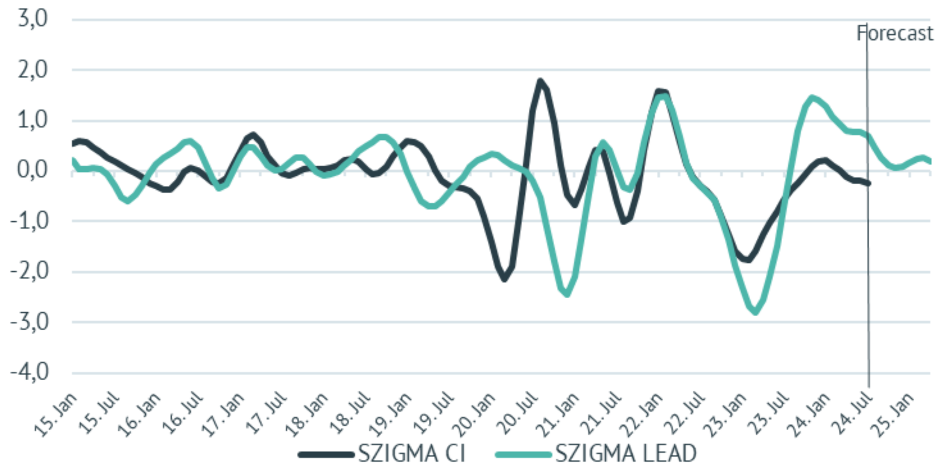
July inflation data shows that the services sector contributed most to the increase in the annual inflation rate, with 1.82 percentage points. This was followed by food, alcohol and tobacco, which added 0.45 percentage points to the inflation rate. Non-energy products played a smaller role, contributing only 0.19 percentage points. It is important to highlight that, in contrast to previous months, the energy sector's negative contribution to inflation came to a halt and moved back into positive territory, albeit only slightly.

2.2 Our SZIGMA indicators

In August 2024, the value of the SZIGMA CI indicator reflecting the current state of the Hungarian economy was -0.252 up to July 2024. This is down from the previous month's index value of -0.115. This means that Hungarian economic growth was below its historical trend rate. Domestic consumption growth fell short of expectations and a decline in exports held back the growth rate of the Hungarian economy. This subdued growth is also reflected in industrial and construction output. In construction, the latest, June 2024, seasonally and working-day adjusted fixed-base (2021 average = 100.0%) **construction** output volume decreased by 6.4% from the previous month, which was due to the 8.0% decrease in the output of buildings and the 0.7% decrease in the output of civil engineering works. Meanwhile, on a fixed base (monthly average for 2021 = 100.0), the stock of construction contracts at the end of June 2024 was 2.2% down, while the stock of new construction contracts at the end of June 2024 was 1.2% up. So, despite the increase in the volume of construction contracts, the stock of contracts fell on a monthly basis. **In industry**, the latest figures, for June 2024, show that the seasonally and working-day adjusted volume of industrial production, calculated on a fixed basis, increased by 0.5% month on month and decreased by 3.8% year on year. The volume of industrial sales (domestic and exports combined), seasonally and working-day adjusted and calculated on a fixed basis, increased by 2.0% month on month and fell by 2.2% year on year. The month-on-month increase was driven by a 5.6% rise in export industrial sales, as this offset a 0.8% decline in domestic industrial sales.

In August 2024, our short-term leading indicator, SZIGMA LEAD, pointed to a slight weakening towards the end of the forecast horizon, while still growing above trend. Turning to the future outlook, total seasonally and working-day adjusted new industrial orders on a fixed basis increased by 17.0% on a monthly basis, but were broadly flat (-0.1%) year on year. This was driven by an increase in new export industrial orders, as new export industrial orders increased by 18.7% month on month and by 0.7% year on year. Meanwhile, the stock of new industrial domestic orders increased by 7.0% month on month, while it shrank by 4.2% year on year. In sum, the expansion in export industrial orders improved the stock of new industrial orders, but it is questionable whether this growth in new orders will be sufficient to increase the stock of existing orders. As for the German and EU indices affecting the Hungarian economy, the Ifo Business Climate Index for July 2024, **which measures change in business sentiment in the German economy**, weakened by 1.6 index points month on month and by 0.5 index points year on year to stand at 87.0 index points in July. In July 2024, the **Eurostat**'s consumer confidence index weakened month on month (by 0.6 index points) but strengthened year on year (by 11.1 index points). This month it stood at -23.6 index points.

Figure 1: **CURRENT (CI) AND FORECASTING (LEAD) SZIGMA INDICATORS**



Source: Századvég

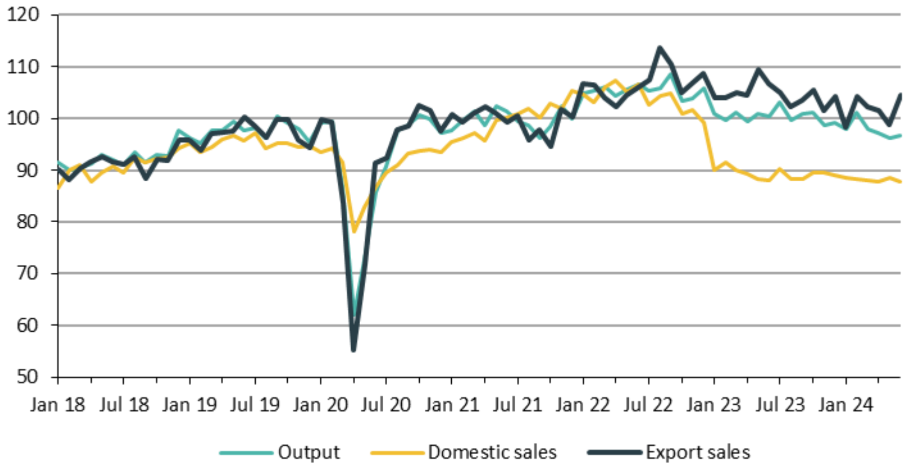
2.3 The real economy

On a monthly basis, the volume of seasonally and working-day adjusted industrial production increased by 0.5%.

Compared with the same period of the previous year, industrial production fell by 8.2% year on year according to raw data and by 3.7% according to working-day adjusted data in June 2024. The difference between the two figures is due to the number of working days, with two fewer working days in June 2024 than in June 2023. Total **industrial sales** were 7.0% lower in June 2024 than in the same period of the previous year. This was driven by a 5.1% decline in domestic industrial sales and an 8.1% decline in export sales. As a result, industrial production in the first 6 months of the year was 3.3% lower and sales were 4.4% lower than in the cumulative period of January-July 2023.

On a monthly basis, relative to the previous month (May 2024), the volume of seasonally and working day-adjusted industrial production increased by 0.5% and sales by 2.0% in June 2024. The increase in industrial sales was mainly boosted by a 5.6% rise in export sales, while it was held back by a 0.8% decline in domestic sales.

Figure 2: **CHANGES IN INDUSTRIAL OUTPUT AND SALES (2021 MONTHLY AVERAGE = 100%)**



Remark: Seasonally and calendar adjusted indices.
Source: Hungarian Central Statistical Office, Századvég

Returning to industrial production, its June 2024 year-on-year decline in terms of raw data was driven by a contraction in the output of the manufacturing sector. Manufacturing output, which accounts for 95.9% of industrial production, fell by 9.2%. Of the other two sectors accounting for industrial output, energy, with a weight of 3.6%, grew by 9.5% and mining and quarrying, with a weight of 0.5%, by 7.4%. So the decline in manufacturing output was only slightly offset by the increase in the performance of the other two sectors. The main contributor to the decline in manufacturing output was a fall in the output of the main subsections. Within manufacturing, the manufacture of transport equipment, which accounts for the largest share (27.8%), fell by 11.8 % year on year. This leaves its (cumulative) performance in the first half of the year 6.4% below the first half of 2023. The food industry, with the second largest weight (12.4%), was 1.3% down in June 2024 compared to the same period last year. The subsection with the third largest contribution (9.7%) that month was the manufacture of computer, electronic and optical products, ahead of the manufacture of electrical equipment (9.4%). Output in both subsections fell this month, by 9.6% in the first and by 22.6% in the second (manufacture of electrical equipment). This month, only two minor subsection of the 13 manufacturing sub-sectors managed to increase their output on an annual basis. Manufacture of chemicals and chemical products, a subsection with a medium weight, grew by 14.8%. The other is wood processing and paper products, a minor subsection, which showed a minimal (0.4%) improvement year on year.

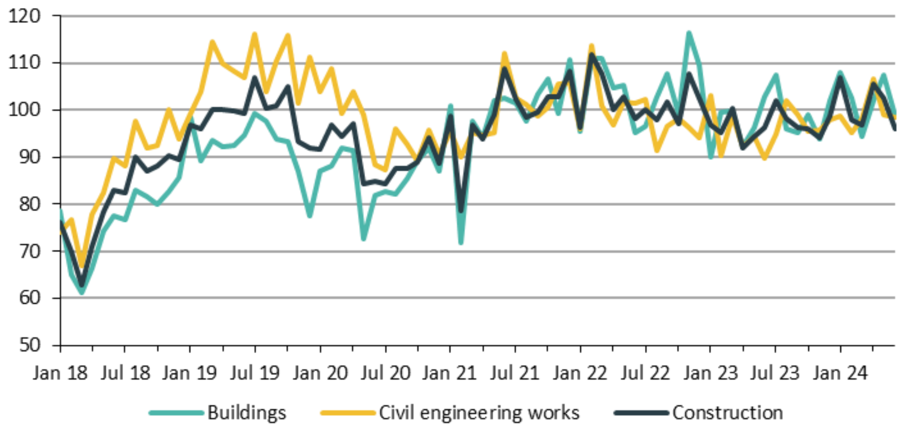
In June 2024, the **stock of new orders** in priority manufacturing industries remained unchanged year on year on a fixed basis, i.e. at the average monthly price in 2021. This was driven by a 4.2% decrease in the stock of new domestic orders and a 0.7% increase in the stock of new export orders. However, the stock of new orders for the same indicator rose by an overall 17.0% month on month, as both the stock of new domestic orders (7.0%) and the stock of new export orders (18.7%) increased month on month.

However, while the stock of new orders increased month on month, the **total stock of industrial orders** fell by 9.1% month on month on a fixed basis (average monthly price in 2021). The decline in the stock of export orders (9.7%) contributed to this. The stock of domestic orders increased slightly (0.4%) from the previous month. So, while the stock of new orders continued to grow, the total stock of orders continued to fall.

Construction output grew by a cumulative annual rate of 5.1% in the first six months of 2024.

In June 2024, the volume of construction output fell by 1.4% year on year in terms of raw data. Within the two main groups of construction, the construction of buildings decreased by 4.2% year on year, while civil engineering works (roads, bridges, railways, complex industrial facilities, pipelines, etc.) increased by 4.3%. In terms of trend, construction output in the first six months of this year was cumulatively 5.1% higher year on year in the first six months of 2023. This was driven by the improved performance of both main groups of construction. The performance of the construction of buildings in the first half of this year was 4.2% stronger and that of civil engineering works 6.6% stronger than in the first half of 2023. On a less positive note, however, construction output, seasonally and working-day adjusted on a monthly basis, indicating a short-term trend, fell by 6.4%. The declining outputs of both main groups of construction contribute to this. While the monthly output in the construction of buildings fell by 8.0%, that of civil engineering works decreased by 0.8%. The data may already reflect the delayed impact of the family homemaking allowance (CSOK), which were amended at the beginning of this year, but not yet the impact of the home renovation programme, which started on 1 July 2024.

Figure 3: **CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2021 = 100%)**

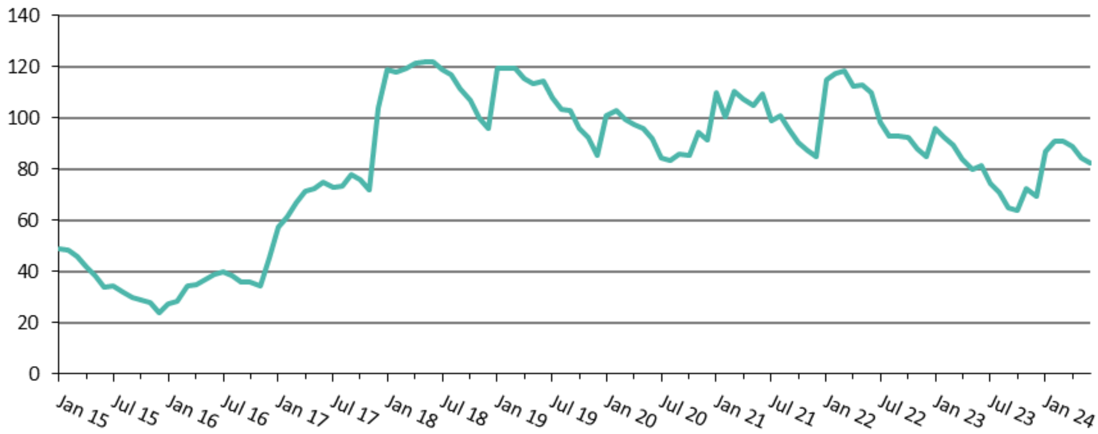


Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Looking ahead, the month-on-month change in the stock of new contracts is still not encouraging. Although the month-end stock of contracts for June increased by 1.5% year on year, the month-end stock of contracts for June on a fixed basis fell by 2.2% month on month. This is despite the fact that the stock of new contracts signed in the month under review increased overall by 1.2%. So, despite the new contracts, the (month-end) stock of contracts has fallen. This change in the month-end stock is reflected in the graph below. Both main construction groups were affected. In June 2024, the month-end stock of contracts for buildings decreased by 3.8%, while the June stock of contracts increased by 2.0% month on month. A similar trend can be observed in the construction of civil engineering works: with new contracts signed in June 2024 up 1.9%, the month-end stock of contracts for June fell by 1.0%.

Figure 4: **CHANGES IN MONTH-END CONSTRUCTION CONTRACTS (MONTHLY AVERAGE FOR 2021 = 100%)**



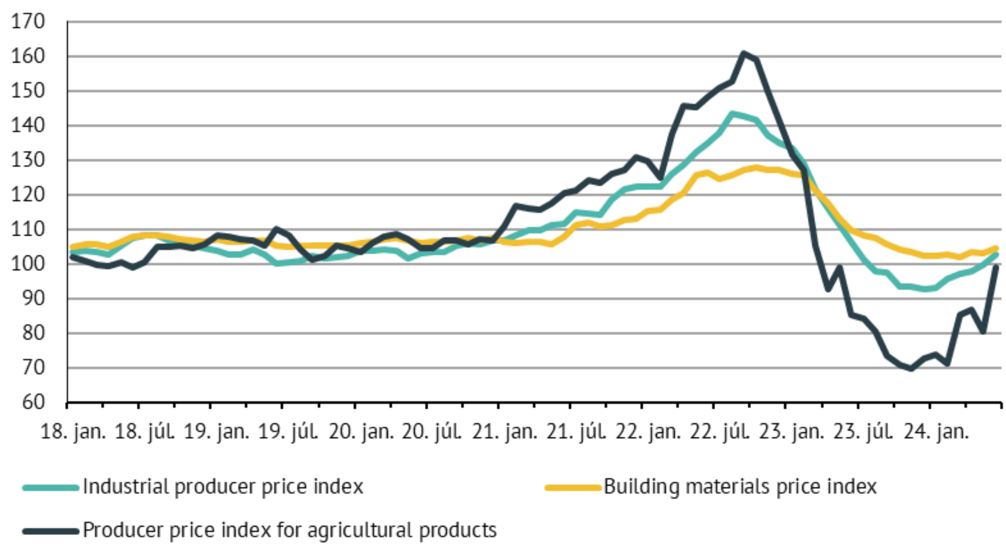
Source: Hungarian Central Statistical Office, Századvég

The agricultural producer price index continued to fall.

In June 2024, compared with the same period of the previous year, only the agricultural producer price index decreased, while the industrial producer price index and the building materials price index started to increase.

The **building materials** price index increased by 1.5 percentage points compared with the previous month. Thus, the **building materials** price index rose by 4.6% year on year in June. In addition, the quarterly construction producer price index, which measures the average change in the price of construction work, increased by 1.0% in Q2 2024 quarter on quarter and by 6.0% year on year. The **agricultural** producer price index fell by 1.1% in June 2024 compared with the same period of the previous year, from a low base. This leaves agricultural producer prices 19.6% lower in the first six months of 2024 compared to the first six months of 2023. However, different impacts were observed for specific agricultural products. The effect of the very low base also contributed to the 8.1% year-on-year increase in producer prices of cereals, 2.5% for industrial crops and 2.9% for crops and horticultural products in June 2024. Despite the high base, producer prices for fruit rose by a further 5.7% year on year. However, producer prices fell for some products. Producer prices for potatoes peaked in June 2023, so this effect has led to a 29.8% annual fall in producer prices for potatoes. Producer prices also fell for vegetables (11.1%), livestock (10.3%) and animal products (0.7%). In June 2024, **industrial** producer prices increased by an average of 2.7% on an annual basis and by 1.5% on a monthly basis. The year-on-year increase in industrial producer prices was driven by a 0.2% decrease in domestic sales prices and a 4.2% increase in export sales prices. The difference between domestic and export sales prices is caused by the different proportions of the manufacturing industry and the energy industry. Within exports, the manufacturing sector accounts for a larger share and the energy sector for a smaller share, while the reverse is true for domestic sales. Both export sales prices (1.7%) and domestic sales prices (1.2%) contributed to the month-on-month increase in industrial producer prices. All told, industrial producer prices in the first half of 2024 were overall 2.3% lower than in the first half of 2023. This was driven by a 1.0% fall in producer prices for export sales and a 4.6% fall in producer prices for domestic sales. Within domestic sales, food producer prices fell by 5.5% in the first six months of 2024.

Figure 5: **INDUSTRIAL PRODUCER PRICE INDEX, CONSTRUCTION INPUT PRICE INDEX, AGRICULTURAL PRODUCER PRICE INDEX (SAME PERIOD OF PREVIOUS YEAR = 100%)**



Source: Hungarian Central Statistical Office, Századvég

Retail sales increased by 2.6% in June.

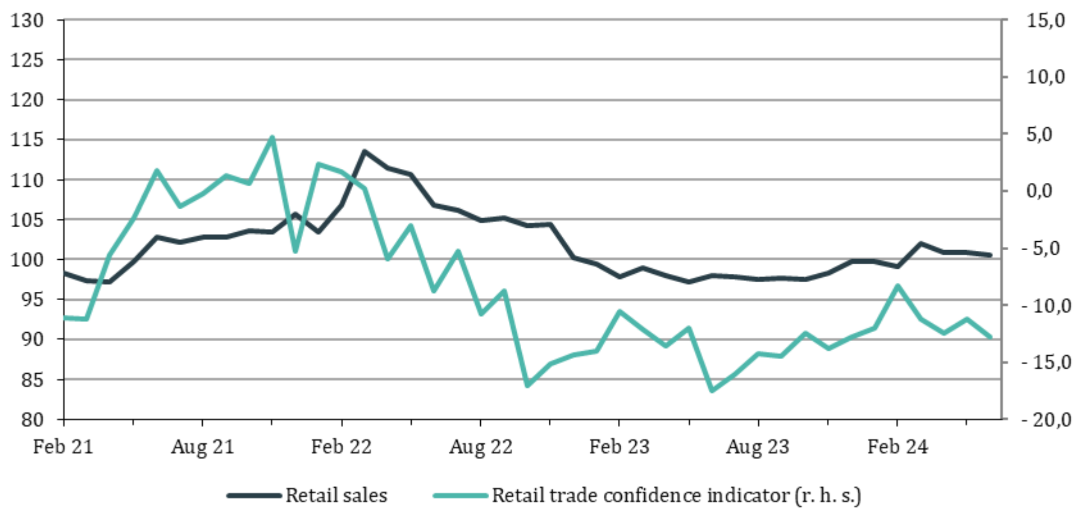
In June, retail sales increased by 2.6% year on year on both a raw and calendar-adjusted basis compared to the respective period of the previous year. The first month of this year saw the first annualised increase in a long time, and the trend continued in the following months. Although the continued year-on-year growth is positive, month-on-month growth falls short of expectations. Consumption is expected to expand further in the coming months, driven by continued growth in real wages, strengthening consumer confidence and rising savings levels.

In June 2024, turnover in specialised and non-specialised food shops increased by 3.2%, and the turnover in non-food shops increased by 3.6%. In fuel retailing, sales increased by 0.5% year on year in June.

In food retailing, sales volumes increased by 4.1% for specialised and non-specialised food retailing, while the volume in specialised food, beverage and tobacco stores rose by 0.4%, continuing the positive trend since February.

In non-food retailing, the sales volume in books, computer equipment and other specialised stores fell by 3.5%, and the turnover of books, newspapers and stationery fell by 9.4% compared to the same period last year. The decline shows a slight moderation compared to the 14.5% drop in May. Second-hand goods shops saw a 5.2% decline in sales, after a 6.0% increase in May. Automotive fuel sales fell in May (-0.7%), but rose again in June, by 0.5%.

Figure 6: **RETAIL SALES AND RETAIL CONFIDENCE INDEX (JANUARY 2021 = 100%)**



Remark: Seasonally and calendar adjusted indices.

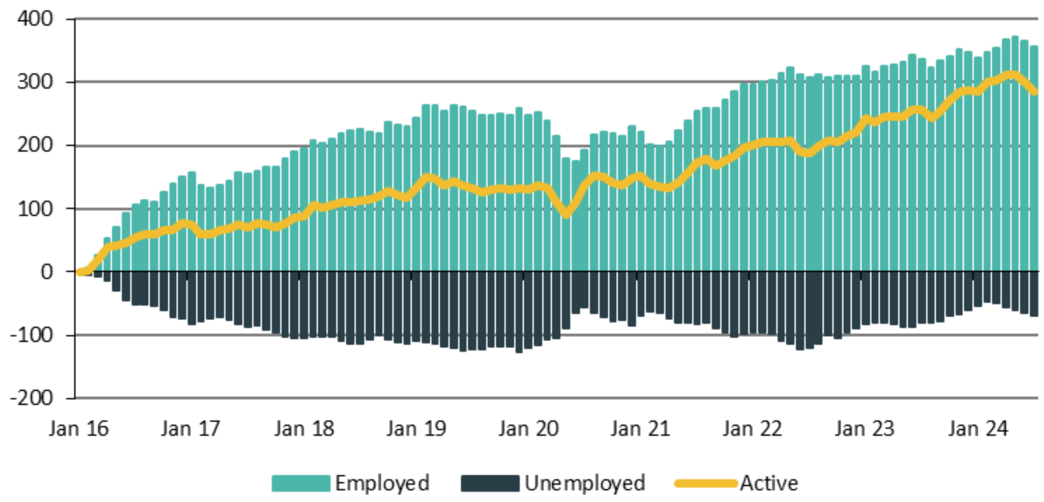
Source: Hungarian Central Statistical Office, Eurostat, Századvég

In July, the unemployment rate was 4.2%.

In July 2024[1], the seasonally adjusted activity rate of the population aged 15–74 was 68.0% (4,952,000 persons), which means a labour market growth of 30,500 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees reached 4,742,000, a year-on-year increase of 18,500. The number of the unemployed continued to decrease, to 209,900, a year-on-year increase of 12,000.

In June, the seasonally adjusted number of employees decreased by 6,400 compared to the same period last year. Compared to June 2023, there were 10,700 fewer employees in the competitive sector (enterprises with 5 or more employees) and 4,500 fewer employees in the public sector. The number of people employed in the non-profit sector increased by 8,700 in one year.

Figure 7: **CHANGES IN THE LABOUR MARKET (JANUARY 2016 = 0, THOUSAND EMPLOYEES)**



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

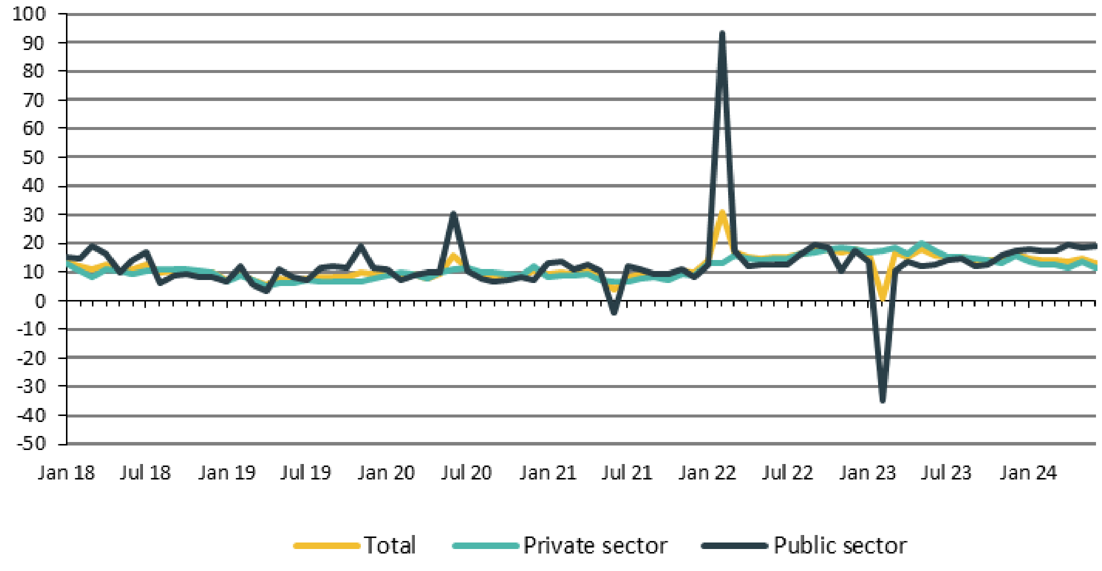
[1] Three-month moving average

Real earnings also rose in June.

In June, average gross earnings in the national economy were HUF 642,000, up 13.3% compared to the same period last year. The highest average gross monthly wage was recorded in the non-profit sector, at HUF 660,600. The wage dynamics of the year were strongly influenced by the increase in the minimum wage (15%), the guaranteed minimum wage (10%), which came into force in December, and by government wage increases in the public sector. Median gross earnings were HUF 518,800, 15.3% higher than a year earlier. The increase shows that some companies have not only increased the wages of workers on the minimum wage and guaranteed minimum wage but have also made significant wage adjustments for other employees to avoid wage compression. Taking benefits into account, average net earnings reached HUF 442,000, 13.1% higher than in June 2023. Real earnings increased by 9.3%, while consumer prices rose by 3.7%.

Our expectation is that, in 2024, real wages to continue to rise, in line with the upward trend that has started in recent months. Nominal wage increases in the second half of the year may be somewhat lower, as price changes seem to be stabilising this year, which reduces the bargaining power of employees somewhat. At the same time, the changing wage structure in companies and sectors due to the increase in the minimum wage and guaranteed minimum wage may also be an important factor in wage negotiations at the beginning of the year.

Figure 8: **CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)**



Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

2.4 External balance

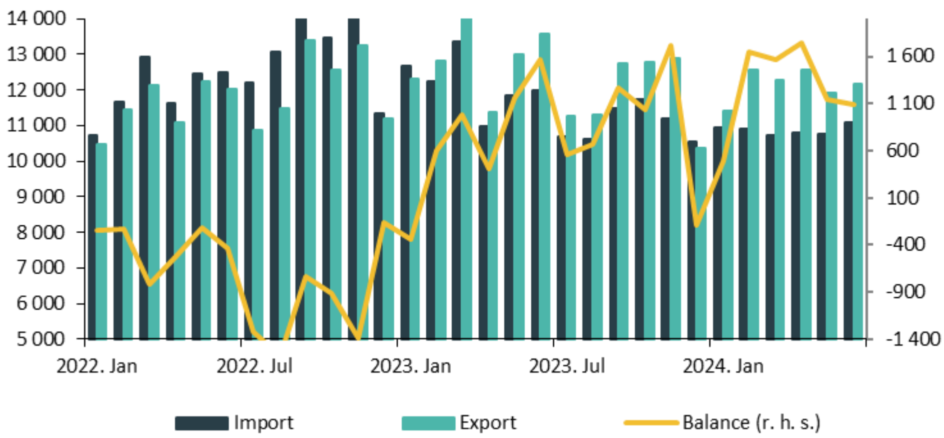
In May, the volume of exports of goods decreased by 3.1%, while their imports increased by 1.6% year on year. This brought the external trade balance to a surplus of EUR 1.0 million, a deterioration of EUR 218 million compared to the previous year.

In May, the import volume of food products, beverages and tobacco increased by 6.6%, and their export volume by 20.0% year on year. As for energy carriers, imports increased by 5.4%, while exports by 8.7%. As for manufactured products, imports increased by 6.8%, and exports increased by 1.9% year on year. As for machinery and transport equipment, imports decreased by 7.7%, and exports by 9.2%.

The trade surplus fell in June.

In June 2024, the first estimate put the value of exports in euro terms at 10.0% lower and imports in euro at 7.8% lower than a year earlier. This brought the foreign trade surplus in goods to EUR 1,095 million, which is EUR 472 million weaker than a year earlier.

Figure 9: **BALANCE OF FOREIGN TRADE IN GOODS (EUR MILLION)**



Remark: The June 2024 figures are from the first estimate.

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

Central subsystem expenditure increased by just 0.9% in the year to the end of July.

Thanks to a positive monthly balance of HUF 213 billion, the deficit of the general government subsector fell to HUF 2,443.3 billion at the end of July 2024. The cumulative deficit was made up of a deficit of HUF 2,473.2 billion of the central budget, a deficit of HUF 138.5 billion of social security funds, as well as a surplus of HUF 168.4 billion in extra-budgetary funds.

In the first seven months, central subsystem revenue increased by 6.8% compared to the same period last year.

Payments by economic units decreased by 2%, HUF 44.2 billion, compared to the first seven months of 2023. Corporate tax receipts, the most significant item, were 1% (HUF 6.9 billion) less by the end of July than in the first seven months of the previous year. In contrast, the second largest item, tolls, generated 50% more revenue, i.e. HUF 115.5 billion. The temporary special taxes, most of which were levied in 2022, showed a mixed picture, but overall payments decreased compared to the same period in 2023. This was due to the fact that the surtax on energy suppliers, the largest item, fell by HUF 107.7 billion, and mining royalties, also a major item, fell by HUF 96.1 billion. The increase in other special taxes could only offset a part of the decline in the two large items mentioned above.

Revenues from taxes on consumption increased by 10.6% (HUF 553.4 billion) compared to a year earlier. VAT receipts, the most significant item, were HUF 280.7 billion (7.0%) higher than at the end of July in the previous year. The increase in VAT receipts was primarily due to a decrease in VAT refunds during the year. However, VAT receipts exceeded the level of receipts in 2023 for the first time this year. This is also due to a 4.8% month-on-month increase in VAT receipts compared to July 2023, the highest month-on-month growth rate this year. Excise tax receipts continued to grow in July, with an increase of HUF 172.7 billion, or 22.8%, at the end of the month. Payments of insurance tax and tourism development contribution also increased, with HUF 46.4 billion and HUF 29.8 billion respectively in the first seven months.

Personal income tax receipts increased by 13.8% (HUF 316.3 billion) compared to the end of July in the previous year. The rise was driven by an increase in wage bills and earnings. Receipts from social contribution tax and social security tax increased by 15% (HUF 609.3 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes was HUF 587.9 billion in the first seven months, HUF 214.7 billion less than in the first seven months of 2023. In contrast, expenditure on EU programmes amounted to HUF 1,027.3 billion, HUF 611.1 billion less than the previous year. These figures show that, as in the previous year, the government is responding to the shortfall in EU funding by severely cutting back on payments for EU programmes, while at the same time reducing the potential cash deficit that could result.

In the first seven months of 2024, central subsystem expenditure was 3.8% higher than in the previous year. Within this, central subsystem expenditure increased by only 0.9%.

Among significant expenditure items, expenditure on central budgetary institutions and chapter-administered appropriations, pensions, expenditure of the Health Security Fund and interest expenditure were higher than a year earlier.

The balance sheet item "Support of utility services", which also includes subsidies for household energy overhead protection, amounted to HUF 629 billion in the first seven months of the year, but were HUF 449.1 billion, or 41.6%, lower than in the same period of the previous year.

Housing subsidies decreased by HUF 247.4 billion, or 71.5%, compared to the same period last year. The decrease is due to the closure of the Home Renovation Programme at the end of 2022 and the end of its payments at the beginning of 2023.

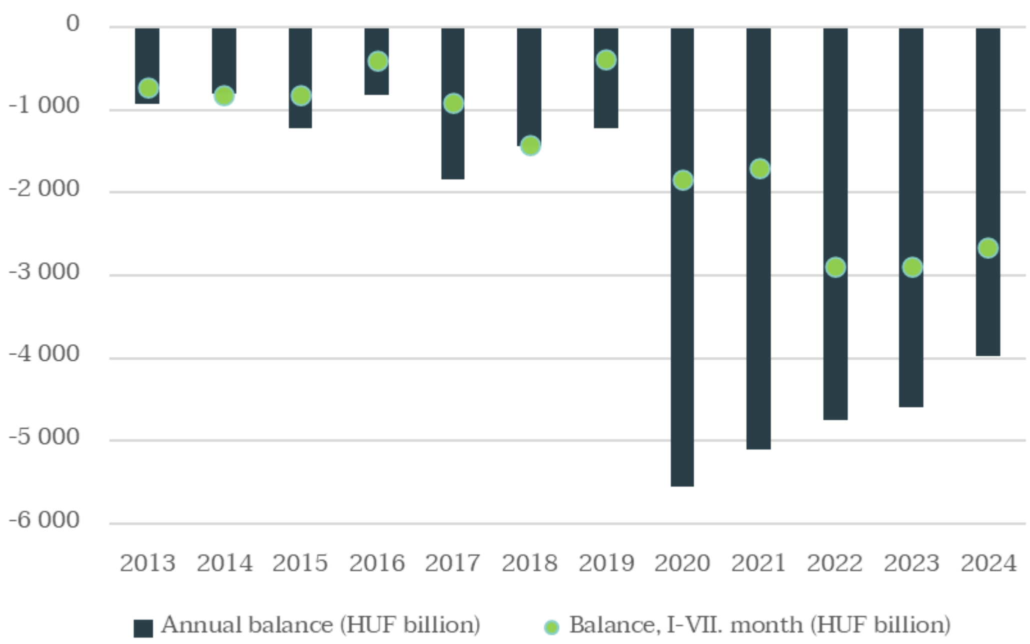
Expenditure on central budgetary institutions and chapter-administered appropriations was HUF 479 billion higher than in the first seven month of the previous year. This corresponds to an increase of 6.7%, while the Budget Act (under revision) would provide for a reduction of 12%.

Expenditures related to state property amounted to HUF 769.4 billion, HUF 143.4 billion more than the end-July 2023 figure, and reached 144% of the 2024 budget estimate.

In July 2024, pensions amounted to HUF 3,803.7 billion, an increase of 11% compared to the same period last year. During the same period, the Health Insurance Fund spent HUF 2,633.5 billion, an increase of 15.2% compared to the base period. Within this, expenditure on curative preventive care, which accounts for more than half of the Fund's expenditure, increased by 19.3%.

The balance of interest expenditures and receipts was HUF 674.6 billion (52.8%) more negative than at the end of July of the previous year.

Figure 10: **CENTRAL SUBSYSTEM BALANCE, 2014–2024 (JULY, CUMULATIVE RESULT, BILLION HUF)**



Source: Ministry of Finance, Hungarian State Treasury;

2.6 Monetary developments

Consumer prices rose by 4.1% on average in July.

In July 2024, consumer prices increased by 4.1% on average, compared to the same period of the previous year. Over the past year, prices of services has increased the most (9.1%). Prices of electricity, gas and other fuels fell by 4.5% compared to the same period of the previous year. Consumer prices rose by 0.7% in a month. The seasonally adjusted core inflation rate was 4.7% higher than in the same period of the previous year.

The main drivers of the 2.7% average increase in food prices were a 46.3% rise in sugar, a 12.4% rise in flour, a 10.7% rise in pork and a 10.0% rise in chocolate and cocoa prices. The prices of meals at restaurants rose by 8.0%, fruit and vegetable juices by 7.1%, edible oil by 6.5% and non-alcoholic beverages by 5.5%, all of which exceeded the annual average food inflation rate in July. In contrast, deflation was observed in several products, as in the previous months: egg prices fell by 14.7%, pork fat by 11.1% and potatoes by 10.4%. The 4.2% average inflation rate for alcoholic beverages and tobacco is the same as the previous month. The most significant increase in this category was the 5.4% rise in wine prices.

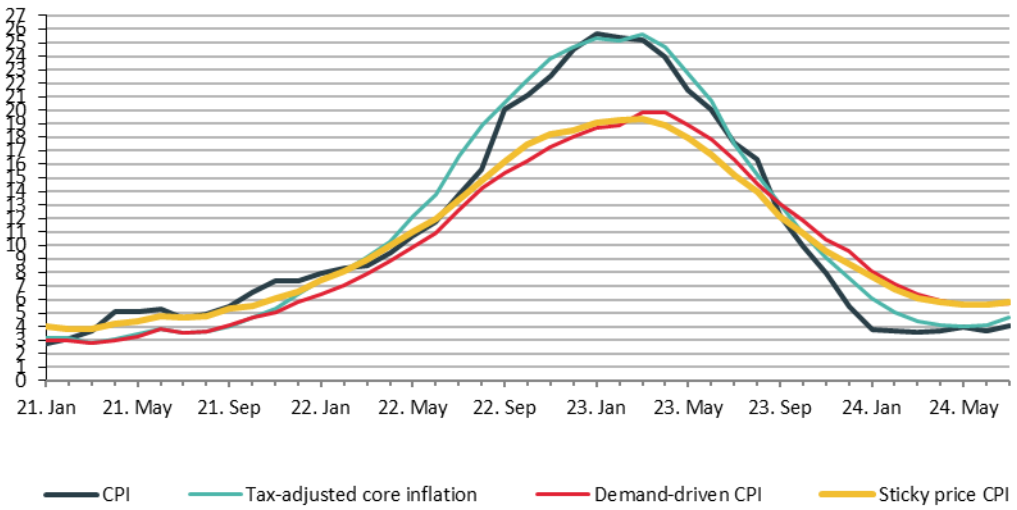
The 0.5% average fall in the prices of consumer durable goods represents a significant improvement compared with trends in recent years. Several factors supported the fall in prices, including sustained lower commodity prices, supply chains that are once again operating efficiently, falling demand and a the stabilisation of the forint's exchange rate below 400 EUR/HUF. If we look at the main group in more detail, we can see that the price of new passenger cars increased by 6.3% and jewellery by 9.1%, which is above average. The deflation of consumer durable goods was supported by a 2.9% decrease in the prices of durable goods for recreation and a 3.3% decrease in the prices of computers, cameras and phones. It is also important to mention the positive trend in the market of second-hand passenger cars, where the price paid for second-hand cars in July was already 7.4% lower compared to the respective period of the previous year, which has a significant impact on the overall result of the main group, due to the high weight of just over 2%.

Partly due to the build-up of the base effect in September 2023, the average fall in the prices of electricity, gas and other fuels in July was 4.5% year on year. Within electricity, gas and other fuels, the price of natural and manufactured gas fell by 9.3%, briquettes and coke by 4.5% and electricity by 2.1% over the past year. Prices of butane and propane gas were also 0.4% lower.

In July, the price of services rose by an average of 9.1%, with theatre up 25.3%, game of chance up 20.6% and cinemas up 16.2%. The prices of both TV fees and postal services show above-average increases (15.0% and 15.6%, respectively). The average increase in the price of services was moderated by, among other things, the stagnation of prices for refuse disposal, water and sewerage, and a 21.7% decrease in the price of travel to work and school due to the introduction of county and country passes, which were unchanged in June and July.

Compared with the previous month, consumer prices increased by 0.7%. Looking more closely at the category, food prices rose by 0.6% on average. The biggest contributors to the month-on-month increase in food prices were a 38.1% rise in flour and a 13.9% rise in sugar. Prices of services rose by 1.1% on a monthly basis, while the price of electricity, electricity, gas and other fuels also increased by 1.1% compared with the previous month. Prices of other goods included motor fuels increased by 1.4% compared with June, which also contributed to the month-on-month increase in inflation.

Figure 11: **THE EVOLUTION OF INFLATION (ANNUAL CHANGE IN PERCENTAGE)**



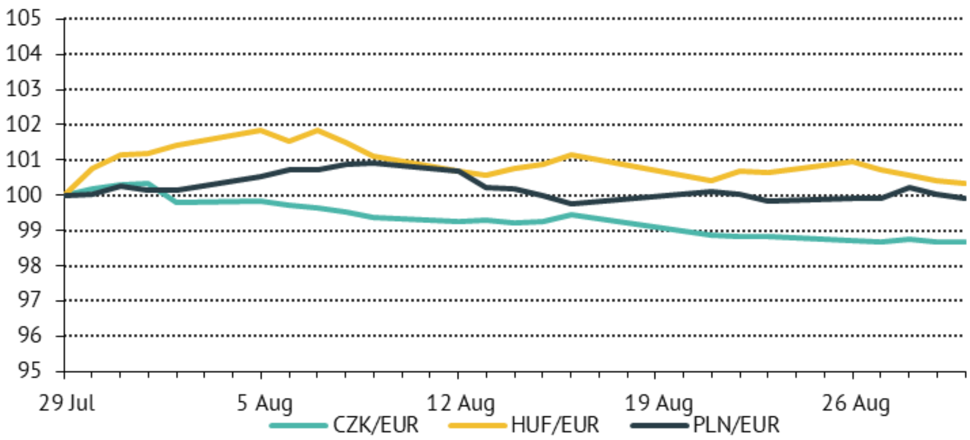
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, the core inflation rate net of indirect taxes was 4.7%, the core inflation rate excluding processed food and the sticky price inflation rate were 5.7% in the seventh month of the year.

Currencies of regional competitors weakened against the euro.

The regional currencies surveyed weakened against the euro in August. In the past period, the Czech koruna weakened by 1.32%, the Polish zloty weakened by 0.1% against the Euro. Government bond yields also fell over the period, with the Czech 10-year government bond yield 16 basis points lower at 3.87% and the Polish 10-year yield 5 basis points lower at 5.46%.

Figure 12: **CHANGES IN EXCHANGE RATES IN THE REGION (BASELINE VALUE = 100%)**



Source: Refinitiv, Századvég

The Hungarian currency weakened against the Swiss franc and strengthened against the euro and the dollar.

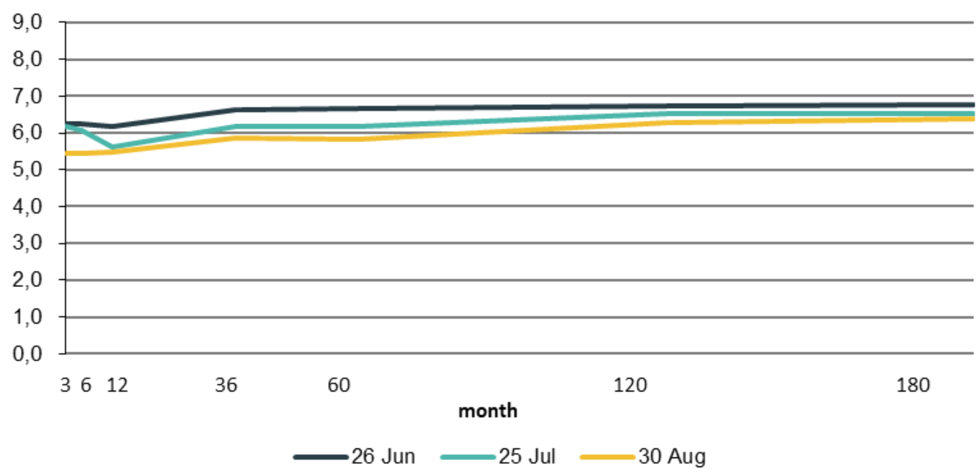
Hungarian money- and foreign exchange market indicators showed a mixed picture over the last month. The HUF strengthened by 0.4% against the euro and by 2.7% against the US dollar, while it weakened by 1.6% against the Swiss franc. This means that at the end of August 2024, 1 euro was worth 393 forints, 1 US dollar was worth 354 forints and 1 Swiss franc was worth 418 forints. In August, sovereign debt held by foreigners decreased by HUF 35 billion to HUF 6,370 billion.

In August, the central bank stopped cutting the base rate.

At its August meeting, the Monetary Council of the central bank halted monetary easing after cutting the base rate the previous month. Thus, the base rate in Hungary currently stands unchanged at 6.75%. The upper end of the interest rate corridor remained at 7.75% and the lower end at 5.75%. The central bank said that the decision was made taking into account, among other factors, the moderate performance of the European economy, the risks surrounding disinflation, confidence indicators and labour market data pointing to a slowdown in the US economy. The volatile international investor sentiment and the interest rate policies of the globally dominant central banks warrant a cautious and patient monetary policy.

In the government bond market, changes of yields for shorter maturities varied between -70 basis points and -15 basis points on the secondary yield curve in August. This means that the 3-month yield was 5.46%, the 6-month yield was 5.46% and the 1-year yield was 5.47% on 30 August. The 3-year yield fell by 31 basis points to 5.86%. Yields are down 35 basis points over the 5-year horizon, 22 basis points over the 10-year horizon and 15 basis points over the 17-year horizon compared to the previous month. These three yields changed, therefore, to 5.84%, 6.29%, and 6.42%, respectively.

Figure 13: **CHANGES IN THE HUF YIELD CURVE (%)**



Source: GDMA, Századvég

On 23 August 2024, the total value of "MÁP Plusz" government securities held by retail investors was HUF 655.7 billion after a HUF 117 billion decrease from the HUF 772.6 billion level in mid-December 2022. In addition, the cumulative value of PMÁP securities was HUF 7,131.7 billion, while the cumulative value of the "Bónusz" Hungarian Government Bonds was HUF 1,107.3 billion. The total value of the new 1MÁP securities is HUF 694.5 billion, that of Treasury Savings Bills is HUF 508.2 billion and that of FixMÁP securities is HUF 650.6 billion. In addition, funds held in "Baby" Bonds amounted to HUF 342.8 billion and funds held in Printed MÁP Plus amounted to HUF 105.5 billion. The total stock of government securities held by retail investors stood at HUF 11,196.2 billion at the end of August 2024, up from HUF 9,810.2 billion at the end of 2024, meaning that people held HUF 1,386.0 billion more in government securities than in the first month of 2024.

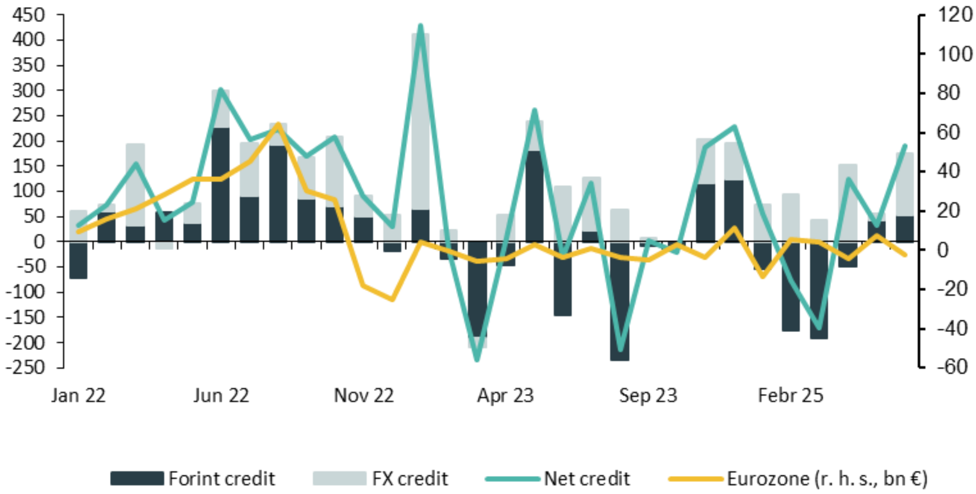
The share of foreign currency debt in the sovereign debt changed to 29.2% in June (i.e. increased by 0.33 percentage point from the previous month), which is in the range (maximum 30%) specified in the financing plan for 2024 of GDMA. Over the past 12 months, the average foreign currency debt ratio averaged 27.7%, with the June ratio higher than this.

Hungary's sovereign debt rating remained at Baa2 with a stable outlook at Moody's, BBB with a stable outlook at S&P and BBB with a negative outlook at Fitch. The risk rating of Hungarian government bonds is therefore in the recommended for investment category of all three major international credit rating agencies.

Corporate credits increased in Hungary.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector increased by HUF 52.7 billion in June 2024. The value of net foreign currency lending also increased, with net borrowing amounting to HUF 122.9 billion in the fifth month of the year. Seasonally adjusted total net borrowing increased by HUF 189.0 billion in the period under review. Corporate loan repayment in the euro area was EUR 2.09 billion in June 2024.

Figure 14: **CORPORATE BORROWING (HUF BILLION)**



Source: MNB, ECB, Századvég

3. Századvég's forecast[2]

TABLE 1: 2024 Q2 FORECAST

	2023	2024	2025
Gross domestic product (volume index)	-0.7	2.7	3.9
Household final consumption expenditure (volume index)	-2.2	3.0	3.7
Gross fixed capital formation (volume index)	-14.4	-1.3	7.8
Export volume index (based on national accounts)	-0.1	3.2	7.9
Import volume index (based on national accounts)	-5.1	3.0	8.3
Balance of international trade in goods (EUR billion)	0.4	2.5	4.7
Consumer price index (%)	17.1	4.1	3.8
Central bank base interest rate at the end of the period (%)	11.4	6.2	5.4
Unemployment rate (%)	4.1	4.6	3.7
Current account balance as a percentage of GDP	1.0	1.7	2.1
Net lending as a percentage of the GDP	3.3	3.9	4.1
ESA balance of public finances as a percentage of GDP	-6.3	-4.9	-3.7
Sovereign debt as a percentage of GDP	73.5	73.4	72.6

Source: MNB, Hungarian Central Statistical Office, Századvég's calculation, Remark: The base rate of the central bank applies to the last quarter of the year.

[2] Date of preparation: 18 June 2024